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The Role of the Food Distribution Industry in Institutional and Service Foods

Emerging Competitive Developments in the Food Service Industry

Food 70's

Discussed growth in the 1960's, current problems, and trends in the food service industry for the 1970's

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● As we enter the new decade of the 1970's, we in the foodservice industry, and particularly we in the industry's national leadership organization, the National Restaurant Association, are vitally concerned with the future. This parallels generally the concern of all industries with their respective futures. But it also parallels, in a specific way, the concern of the food distribution industry with its future as exemplified in this meeting-- directed as it is to the "emerging role" of your industry.

But, as we all know, the food service and food distribution industries are not really parallel in their outlook. Rather we have been convergent and mutually dependent in many aspects of our past; we are so today; and we shall be so in the future. In many ways, our futures will be inextricably related, one to the other. In other ways, we shall be sharing the same developments which will shape the future. The "emerging competitive developments in the foodservice industry" may well also be shared. And, in any case, it is a pleasure to be able to be here with you today to share a look at some of these developments.

Let me start, however, with a sort of disclaimer. I shall not try to tell you what lies ahead. No one can predict for certain what is going to happen from one minute to the next, much less from one year to the next. Instead, we can perhaps take a hint from good business practice in examining today's problems, situations and changing conditions and then try to

develop a forecast of what may lie ahead if our assumptions hold true.

We are now almost ten full months into the 1970's, the decade which started last January 1st. Interestingly enough, we have not yet named our new decade, though Patrick O'Malley, the President of Canteen Corporation and Chairman of the NRA Education Committee, has probably most significantly suggested it will be the "Serious Seventies".

By contrast, within a short time after the 1960's began, we felt it was going to be the "Soaring Sixties", the "Sensational Sixties", or even the "Sizzling Sixties" -- all adjectives implying unprecedented growth, expansion and general prosperity. By and large, the optimism that accompanied the beginning of the last ten-year period was more than justified. From an overall business standpoint the sixties were indeed soaring and sensational. For our foodservice industry -- the sixties were absolutely sensational. In ten years, restaurant and bar sales increased 80 per cent. From 1959 to 1969, the foodservice industry grew into a 42 billion dollar business. We are now the fourth largest industry in the country in terms of gross retail sales, first in employment, and first in the number of outlets comprising an industry.

During the last decade, we have participated in and helped engineer a fantastic foodservice revolution. People are eating at least 25 per cent of their meals away from home. Brown bags and thermos jugs have been

replaced by modern, attractive institutional feeding lines. The "greasy spoon" has been supplanted in many areas by systematized, slick, semi-automated franchised operations serving up delicious hamburgers, fish, tacos or roast beef according to scientific formulations. We may not have a chicken in every pot in America, but the fast food segment of our industry has expanded so rapidly that we seem to have a chicken establishment on every corner!

Back in 1960, when John Steinbeck's travels across the States were reported in his book "Travels with Charley", he commented that the only meal you could count on to be pretty good was breakfast. Now, ten years later, our industry has dotted all the major arteries of the nation with quality food outlets, so that virtually anywhere in America today hungry travelers and tourists can find reasonably priced breakfasts, lunches and dinners that they can count on to be good.

We have improved on-the-job feeding, at-school feeding and hospital feeding. We have brought in-flight foodservice to a stage of art almost as amazing as jet travel itself. We have brought the experience of gourmet food to many Americans, quality food to all Americans, and we have consistently elevated our standards of performance, service, public health and sanitation.

Yet despite all these achievements, we have almost failed! Despite our great successes, despite what has been done during the past ten years, it will be these failures, the things which the industry has not done, which will now haunt us in the 1970's. It will be the ways in which these failures are handled which will form the "emerging competitive developments" of significance to both foodservice and food distribution.

These failures are common property. It is no secret, for instance, that the industry has not solved its pressing manpower problem -- a problem which continually saps our energies as we try to cope with a turnover rate that is three times that of all manufacturing industries. Although many of the job changes are within the industry, recent national data from a U. S. government survey reported a 10.4 per cent average monthly rate of new hires and a shocking 7 per cent average monthly voluntary "quit rate".

It is no secret, also, that we lead the

way numerically if not percentage-wise, in business failures. The number of restaurant closings and ownership changes even surpasses that of gasoline stations!

It is no secret that, although substantial improvements have been made possible in the sixties through greatly accelerated vocational and industry-oriented education, we are not attracting and retaining the young, aggressive managerial talent we need to build the future of our business!

It is not a secret either, that in an age where computerized decision-making is a common element in the preparation of every recent business school graduate, the foodservice industry is woefully behind in the application of such sophisticated technologies.

So it is perhaps also no secret that Mr. O'Malley's suggested epithet for the decade -- the "Serious Seventies"-- must prove to be correct; this decade of competitive development must be a time for seriously attacking the problems which have plagued us.

It must be a time to get serious about our employee productivity rates which have not even kept pace with inflation.

It must be a time to get serious about a personnel system approach to recruiting, training and retaining career employees at all levels.

It must be a time to get serious about improved marketing orientation, research and decision-making.

And, it must be a time to get serious about profits based on sound marketing.

Above all, it must be a time for serious management -- thoughtful management -- well-prepared management -- tough management that can take this vast industry through what will unquestionably be a very traumatic ten years to many. An industry which so represents our free enterprise economic system that one of every five retail establishments in the nation qualified for inclusion deserves no less. The American eating-out public, which will be eating one of every three meals away from home by 1975 also deserves no less. In fact, it demands no less.

Let us briefly examine these four general categories of serious concern (namely, employee productivity; personnel as a system; marketing; and management) as they appear to be

developing in the food service industry.

First, productivity of employees must be increased industry-wide to bring profits up to an acceptable level. Sales per employee, admittedly not an adequate measure of productivity when separated from profitability data, but still a good indicator, has remained at approximately the same level for the past seven years, in spite of a great deal of industry talk about efficiency.

Maintaining a balance with higher employee costs, with higher food costs and with increased investment needs for land, buildings and equipment will intensify the productivity push. The current trend to reduction of the number of employees actively involved in the on-site preparation and service of food will be accelerated. Commissaries, centralized purchasing of food supplies, elimination of duplication in jobs, simplifying procedures -- these will all be areas of emphasis. Limiting personal service, increased use of disposables, cross-training for multiple jobs -- these also will be tried, and where they work, developed.

Automation will be maximized wherever it is appropriate, particularly in so-called "lower level" jobs, and the increased use of pre-prepared and convenience foods is an obvious corelary trend. If a job can not be automated out of existence, the alternate approach, that of letting a food manufacturer do it, will be increasingly employed. And, of course, we shall see maximum development of limited and specialized menus, with resultant reduction in the number of skilled jobs needed on-site. Improvements in food distribution will necessarily play a large part in making these developments possible in the "Serious Seventies".

Turning to personnel as a system, it seems to me there are two major aspects. One of these is the move toward education as a source of better qualified and better motivated people for all job levels in the industry. We have actually done this to a very significant measure in the past few years, particularly with the stimulus to occupational education which has resulted from the Vocational Education Act of 1963 and even more from the Vocational Education Amendments of 1968. There are now some 25 colleges and universities conducting baccalaureate degree programs preparing young people for careers in our industry, about 200

junior and community colleges offering courses in our area, and over 900 high schools. The total enrollment of students pursuing foodservice career education increased 75 per cent from 1966 to 1969.

It should continue to increase, as courses are improved, and as the new National Institute for the Foodservice Industry, established this summer by the National Restaurant Association for the entire industry, develops better course materials and initiates a program of national certification of qualified managers.

The second aspect is within the companies -- the whole trend toward considering employees as a most valuable resource on a career (rather than only on an individual job) basis. Cornell University's School of Hotel Administration, on a grant from the U. S. Department of Labor and with NRA support and consultation, has just completed a very significant research report on "Career Ladders and Manpower Development for Non-Management Personnel in the Foodservice Industry". We in NRA consider this so important a report, based as it is on in-depth examination of 18 large foodservice companies whose activities cover the entire spectrum of operations from in-flight feeding through hotels and cafeterias and hospitals and schools to fast food, that we shall publish the major conclusions as an industry service. The career approach is clearly the system of the future.

Turning to marketing, we are probably facing the most pressing demand of the decade. Sounder marketing decisions will make the difference between otherwise equal competitors, and better marketing orientation is vital. You all recognize, I am certain, that so many of the industry's failures, including those in the manpower as well as sales areas, are directly attributable to marketing errors committed long before the first oven is installed. Too often, the wrong place is going up at the wrong time on the wrong corner and appealing to the wrong customers. Too often, we have assumed the future would duplicate the past.

Greater market orientation, real rather than haphazard research, and a sharper sense of market segmentation will be needed in planning and conducting operations. We must tune in to what people want -- then zero in on satisfying some of those needs.

Marketing segmentation in foodservice has principally developed in the last ten years. We have seen the growth of specialized eating places appealing to specific clientele with specific needs. And it works. Profitable concerns are those which have carved out a slice of the market and made it their own in a unique way. Well-managed chain operations, for instance, are serving specific market segments, like the travel market, and they are currently capturing about 10 per cent of the total market. In each case, basic marketing decisions which permeate the entire chain are decisions based on good research, sound information and scientific analysis. Operating decisions on menu size, employee requirements, commissaries -- in fact, all the streamlining I mentioned as trends affecting the manpower problem-- logically follow well-considered marketing decisions.

The soundness of decisions on the great marketing opportunities of the 70's, including the leisure market, the travel market, the diet and health-food market, the foreign and ethnic food market and the school-lunch catering market, among others, will shape the rise and fall of many competitors of the 70's.

Finally, to management. Our industry is big; it will continue to grow. We need about a quarter of million new people each year to provide replacements for job dropouts and to fill the thousands of new jobs being created as the industry expands. About 10 per cent, or 25,000 of these new people, are needed annually to fill managerial and supervisory jobs. This is a big order, even if looked at only as a quantitative one.

Qualitatively, the order is even bigger. We need the management skill to handle all the problems faced on a day-by-day basis of operations. We need careful attention paid to the highest standards of product and of service, of customer satisfaction and customer protection. But, most of all, we need the executives who are motivated as well as qualified to face head-on the manpower problems, the matters of career system and career ladder development, and the marketing dilemmas which are built into the future.

The industry is actively searching out potential executives on the campuses and throughout the industry each year. We are actively supporting academic

programs in every state in the nation. But whether we can find the key to success in recruiting and keeping the young, imaginative, ambitious, aggressive men and women we will need is a real question. Our industry has a tremendous growth pattern and a very visible potential. We need to find better ways of telling our story and convincing the very people who must develop that growth potential that they should do it.

In this task, in our National Institute for the Foodservice Industry, and in all other areas where our futures are interrelated, the foodservice and food distribution industries will have to be mutually supportive.

This task will require, therefore, a massive commitment, and I am hopeful that it will be given. Perhaps it will be the kind described in the story of the chicken and the hog who were walking down Halsted Street in Chicago when they saw a sign reading "Ham and Eggs 50¢". The chicken wanted to go in and have some, but the hog said, "Not me, I don't want to encourage that".

"Why not?" said the chicken. "It's a bargain at 50¢."

"For you it's a bargain and a contribution", said the hog. "But for me, it's total commitment". ●